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No. 79-1771

IN THE

Supreme Court of the United States

OCTOBER TERM, 1980

TRIO PROCESS CORP., *et al.*,
Petitioners,

v.

L. GOLDSTEIN'S SONS, INC., *et al.*,
Respondents.

PETITIONERS' REPLY BRIEF

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I

Respondents, largely ignoring the issues presented by petitioners, hinge their brief in opposition upon the theory that *Trio Process III* required petitioners to submit additional evidence in support of findings of a depressant effect and the extent of that effect, that petitioners failed to submit such evidence,[1] and that *Trio Process IV* there-

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[1] Respondents thus ignore the realization by the Court of Appeals in *Trio Process III* that no new evidence was likely to be adduced:

> We do not decide whether the presentation of additional evidence will be necessary to the decision of the district court; rather, we leave that decision to the district court. However, counsel for both parties stated at reargument, in writing and orally, that, in their view, additional evidence was not necessary for the assessment of damages. [App. F, p. 76a n.24.]

upon applied "the correct legal standard" in reaching the damages it did. In essence, respondents present a plenary brief attempting to justify the action of the majority below on the merits.

Of course, this theory ignores the fact that even if respondents were accurately presenting what occurred—which they are not—the Court of Appeals had no business substituting its own set of factual findings for those of the Master and the District Judge.

But further, respondents' theory will not withstand analysis.

1. Respondents misconstrue the *Trio Process III* remand. The District Court was not told to "provide a factual basis for its finding of a depressant effect, and * * * for the extent of that effect," as respondents say (p. 3). Rather, *Trio Process III* required that the reasonable royalty, and the extent of the deviation of existing license fees from that royalty, "be determined solely on the basis of the submitted evidence and upon an evaluation of the factors that could affect the reasonable royalty rate" (App. F, p. 74a).[2] There was no direction to delve further into the *reasons* why the license fees had been lower than a reasonable royalty, much less into the relative contributions of such reasons to the result found as a fact by the Master and the District Court.

2. Respondents urge (pp. 2-3) that this Court's *Aro Mfg. Co.* decision put an end to the significance of the "economic benefit" of a patented invention as a factor to be evaluated in determining the amount of the reasonable royalty. Respondents say (p. 4) that because petitioners were unable to offer evidence of the existence or extent of a depressing effect, the "District Court returned

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[2] The list of "factors" the Court of Appeals required the District Court to consider are found in the *Georgia-Pacific Corp.* case, cited in our Petition (see App. F, p. 74a n.17).

(p. 80a) to the 'economic benefit' theory, which it had previously discarded as contrary to law (p. 55a), and computed a new amount of damages." [3]

The *Aro* case merely held that under the new patent infringement damage statute, which became 35 U.S. Code § 284, an infringer's profit *per se* is no longer recoverable. *Aro* did not abrogate the long-standing and still valid principle that the economic benefits provided by a patented invention are significant in determining the reasonable royalty. The District Court below never "discarded as contrary to law" that principle. To the contrary, in both of its decisions on damages, it took into consideration the whole gamut of *Georgia-Pacific* factors, including the numerous ones on the patent's economic benefits (App. E, p. 55a; App. G, pp. 78a-81a). To have disregarded the economic benefit factors would have constituted a substantial non-compliance with the *Trio Process III* mandate (App. F, p. 74a and n.17).

3. Respondents refer (p. 5) to "unsubstantiated claims made * * * to increase the prevailing royalty rate." [4] We cannot imagine, in the context of this case,

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[3] Even respondents' reference to "a new amount of damages" resulting from the District Court having "returned" to the "previously discarded" theory is misleading. *Trio Process III* mandated that the *single* royalty rate be applied to the entire period of infringement and be determined on the basis of the judicial approval of the patent (App. F, p. 73a). Complying, the District Court made its fully-explained finding that the reasonable royalty was $15,000 per furnace per year (App. G, p. 81a), and applied it to the entire period. This was the *same royalty figure* it had applied to the latter period (*i.e.* for the patent as judicially approved) in its previous decision (App. E, p. 56a).

[4] Respondent uses such terms as "prevailing royalty rate" (pp. 2, 4, 5) and "existing royalties" (p. 6) to imply that there was an established royalty, while avoiding a head-on confrontation of the determinations in this case that the infrequent transactions, at non-uniform rates, could not meet the law's requirements for an *estab-*

the meaning of the term "unsubstantiated." It could not apply to the evidentiary basis for the $15,000 reasonable royalty figure. The evidence of labor savings, particularly, was developed at great length and with extensive backup, as the Master recognized (see Petition p. 6 n.7). Respondents themselves acknowledged the great relevance of such evidence.[5] Moreover, respondents elicited from the acknowledged patent licensing expert his "best judgment" as to the reasonable royalty which would have been agreed upon, in good-faith dealing at arm's-length negotiations, "with the potentially positive savings from the Trio license [being] $52,000 a year * * *."[6] His opinion, based solely upon the labor saving posed to him, was $21,000 per furnace per year—obviously an even higher figure than the $15,000 ultimate figure found by the District Court (App. G, p. 81a).

II

Only on page 6 of their Brief in Opposition do respondents even attempt to return to the broad legal and administrative question posed in our Petition relating to the right and duty of District Courts to make fact findings upon the evidence (especially upon extensive

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lished royalty (App. E, pp. 48a-49a; App. G, p. 79a n.2). Here, four transactions occurred before the patent came into being, and the remainder occurred during the open infringement.

[5] They said: "One cannot determine a reasonable royalty on a process without a certain degree of comparison. * * * [O]ne must show how that process benefits prospective licensees in terms of qualitative and quantitative type benefits over and above the other alternatives that are available to the prospective licensee" (Record before Court of Appeals at pp. 270a-271a).

[6] Damages trial transcript at pp. 2019-20. The figure referred to was the labor saving in comparison to the fixed-furnace, rapid-burning system—the available alternative. The question was framed in terms of the fifteenth *Georgia-Pacific* factor, and addressed to a qualified expert in compliance with the fourteenth *Georgia-Pacific* factor and the third paragraph of 35 U.S. Code § 284 (App. L, p. 112a).

evidence) in the determination of damages in a civil suit, and the respect to be accorded those findings. Respondents' argument is that "no jury was ever involved at any point in this lengthy litigation. Yet, petitioners' request for review is based solely on precedents and authorities concerning the appropriateness of appellate review of a district court's modification of a *jury* verdict of damages" (respondents' emphasis). To the contrary, the Petition did not rely solely upon reversals by this Court or Courts of Appeals for their reduction of jury verdicts. The *Snyder* case, for example, reversed a Court of Appeals for reducing the amount of damages awarded by a District Court without a jury (Petition, p. 11).

Except for this incorrect statement of what petitioners rely upon, respondents make no effort whatever to address the underlying thesis of the Petition. They do not even allude to, much less attempt to distinguish, the numerous cases cited by petitioners (p. 17 n.18) for the proposition that Courts of Appeals are showing an increasing tendency to substitute their own findings of fact as to damages for those of the fact finder. Recent decisions show how that trend goes against the grain of what previously was thought to be established law.

In *Studiengesellschaft Kohle* v. *Eastman Kodak Co.*, 616 F.2d 1315 (5th Cir. 1980), a patent infringement suit, the court noted:

> The Supreme Court has emphasized the deference due the findings of the trial court in complex cases, such as this one "where so much depends upon familarity with specific scientific problems and principles not usually contained in the general storehouse of knowledge and experience." [*Id.* at 1323, *quoting Graver Tank & Mfg. Co.* v. *Linde Co.*, 339 U.S. 605, 610 (1950).]

This language, though addressed to a finding of non-infringement, logically would apply equally to a de-

termination of damages where that determination depends on an understanding of the patented process and the advantages it provides.[7]

In the light of these and the other cases already discussed in the Petition, it is clear that only this Court's intervention will prevent other Courts of Appeals from being able to say of themselves, as the dissenter said of the majority below: "* * * we have invaded the district courtroom and set ourselves up as a rump fact-finding authority" (App. H, p. 103a).

Respectfully submitted,

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[7] Similarly, in *Smith* v. *Equitable Life Assur. Soc'y*, 614 F.2d 720, 723 (10th Cir. 1980), the court, in discussing the deference an appellate court should give to the trial court's findings, stated:

> It is important to remember that, "[t]he trial judge who heard and saw the witnesses and felt the pulse beat of the lawsuit is, to be sure, the first and best judge of the weight and value to be given to all of the evidence . . . ." *Cundick* v. *Broadbent*, 383 F.2d 157 (10th Cir. 1967). And it is the trial judge who determines the credibility of witnesses. *Wood* v. *Western Beef Factory, Inc.*, 378 F.2d 96 (10th Cir. 1967).

The Master in *Trio Process* based his findings in large part on his evaluation of the testimony of a number of witnesses observed by him.